Memo to the Minister or Minister's Staff

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Department of Finance Canada | Ministère des Finances Canada

MEMORANDUM | NOTE DE SERVICE

Security classification | Classification de sécurité: SECRET

Originator | Auteur: Andrea Bain

Our file | Notre référence:

Your file | Votre référence: 2018FIN467909

Date:

TO / À: Minister of Finance

FROM / DE: Paul Rochon

SUBJECT / OBJET:

Meeting with Nunavut Minister of Finance David Akeeagok

For information. To be read prior to your meeting with Nunavut Finance Minister.

You will be meeting with Nunavut Finance Minister David Akeeagok for an introductory meeting. [redacted] This will be the second meeting with Minister Akeeagok since his appointment as Finance Minister on November 21, 2017. You last met Minister Akeeagok at the December 2017 Finance Ministers' Meeting (FinMM) in Ottawa.

A biography of Minister Akeeagok is provided in **Annex A**; Nunavut's economic and financial outlook is in **Annex B**; and the benefits to Nunavut from Budget 2017 is in **Annex C**.

Territorial Formula Financing (TFF)

TFF is an annual unconditional transfer from the Government to each territorial government. TFF takes into account the high cost of delivering public services in the North. It enables territorial governments to provide a range of public programs and services to their residents that are comparable to those offered by provincial governments, at comparable levels of taxation.

TFF payments fill the gap between each territorial government's fiscal capacity and an estimate of the expenditures required to provide public services comparable to those offered by the provinces (its Gross Expenditure Base, or GEB).

[redacted]

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ADM: Michelle Kovacevic (613) 369-9572
Director General: Galen Countryman (613) 369-5662

Canada

The 2019 TFF Renewal

The legislation governing TFF and Equalization is renewed every five years in order to ensure the programs use the most up-to-date data and employ consistent and accurate measures in the determination of provincial and territorial entitlements.

[redacted]

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[redacted]

Carbon Pricing

[redacted]

As committed to under the Pan-Canadian Framework on Clean Growth and Climate Change (PCF), officials from Finance Canada, Environment and Climate Change Canada (ECCC) and the Nunavut government collaboratively studied the impacts of carbon pricing in and on Nunavut (as well as the other territories). [redacted]

The Government is currently consulting on draft legislative proposals related to the proposed federal backstop system, as well as a regulatory framework paper describing the proposed federal approach to carbon pricing for large industrial facilities. [redacted]

If needed, further briefing material on carbon pricing is in **Annex D.**

Minister Akeeagok may seek clarification regarding:

- The implementation timing of the backstop (if it were to apply) in Nunavut.
- The return of revenues from the federal carbon pricing backstop system to Nunavut.

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It is possible that he may raise questions regarding the study on the impacts of carbon pricing in the territories [redacted]

If these issues are raised, you may want to note that:

- ***Under the Pan-Canadian Framework on Clean Growth and Climate Change, First Ministers agreed to have carbon pricing in place in 2018.***

- ***The federal government will ensure that carbon pricing is in place in fall 2018 in those jurisdictions that request the federal backstop. If Nunavut does not request the federal backstop, but does not introduce a carbon pricing that meets the federal benchmark, the federal backstop would apply in January 2019.***

- ***The federal system will return direct revenues from the carbon price to the jurisdiction of origin. The federal government is evaluating options on the best mechanism to achieve this.***

If pressed on sharing GST revenues from the federal carbon pricing backstop:

- ***The federal government will return direct revenues from the carbon price to the jurisdiction of origin. These revenues do not include GST charged on products or services that may have embedded carbon pricing costs in them.***

Devolution

The Government is currently engaged in negotiations with the Government of Nunavut (GN) and the Nunavut Tunngavik Incorporated (NTI), the Inuit organization that represents the beneficiaries of the Nunavut Land Claim Agreement, on the transfer of the administration and responsibility for onshore public lands, mineral resources and rights in respect of waters to the GN, called "devolution".

The Minister of Crown-Indigenous Relations and Northern Affairs has the mandate to negotiate the Devolution Agreement in Principle. As part of this mandate, you are responsible for negotiating Net Fiscal Benefit. Net Fiscal Benefit is the amount the GN would retain from its onshore natural resource revenues, net of any impact on its Territorial Formula Financing (TFF) federal transfer, as an incentive for resource development in Nunavut.

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s.21(1)(c)

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Annex A: Biography of Minister Akeeagok

David Akeeagok

Minister of Finance
Nunavut

David Akeeagok was elected in the October 30th Nunavut Territorial elections as Member of the Legislative Assembly of Nunavut for Quttiktuq. On November 21, 2017 he was appointed as the Finance Minister, and Minister responsible for the Workers' Safety and Compensation Commission.

Mr. Akeeagok believes in working from a foundation of Inuit knowledge and culture, and in applying Inuit knowledge and values to help find solutions to current issues and challenges.

Mr. Akeeagok's career has included key positions in the Nunavut government such as Secretary to Cabinet, Deputy Minister of Environment, Deputy Minister of Executive and Intergovernmental Affairs, Deputy Minister of Community and Government Services, Deputy Minister of Culture, Language Elders and Youth, and various Assistant Deputy Minister roles.

Mr. Akeeagok was Chief Negotiator for Devolution and for the Government of Nunavut on the Implementation Contract for the Nunavut Land Claims Agreement. He was also part of the Inuit negotiating team for the National Parks Inuit Impact and Benefit Agreement. He has a proven history of success in fostering teamwork and collaboration, both within the Government of Nunavut and with external partners.

Mr. Akeeagok and his wife, Carol, have seven children. As an avid hunter and fisherman, he is adamant about protecting the environment, water and wildlife, so that future generations can benefit from and enjoy them. Mr. Akeeagok was raised in Grise Fiord, Nunavut, but now resides in Iqaluit with his family.

Annex B: Nunavut, Economic and Fiscal Situation and Outlook

Nunavut – Economic and Fiscal Situation and Outlook

Real GDP is forecasted to increase 6.4% after increasing 1.8% in 2016.

Developments at mining projects highly affect territorial economic performance, reflecting the territory's heavy reliance on gold and iron ore production. The pick up in forecast GDP for 2017 largely reflects anticipated growth in production of both these minerals – the Conference Board forecasts that total mineral production will increase 24 per cent. Real GDP growth is forecast to decrease 0.2% in 2018 in part due to declining production at a large gold mine. Broadly, there is an upside risk to economic forecasts across all three territories as mineral prices are anticipated to continue their recovery.

The longer term outlook for Nunavut is mixed. Construction and development spending on new mines has been modest in recent years and while mineral prices appear to be recovering, projected exploration expenses for 2017 to develop new mines remain depressed. There are some reports of potential exploration to develop a site to mine diamonds starting in late 2017 and carrying over into 2018 with production potentially beginning as early as 2021. There is one large scale operation currently in development – Agnico Eagle's Meliadine gold mine – which is partly through its construction phase and will begin production in 2019.

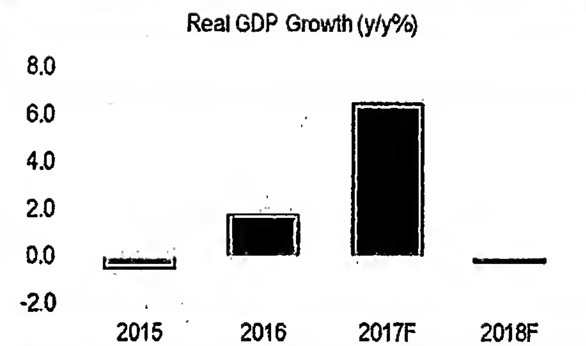
Government spending on education, health care and social assistance, and public administration accounts for 30% of GDP. Combined, total government consumption and capital expenditures accounted for nearly 70% of GDP in 2016 in Nunavut.

Employment in Nunavut decreased by 0.7% in 2017 and is forecast to decline another 1.5% in 2018. This contraction reflects the end of several government-funded projects in the territory; an estimated 500 jobs were lost as a result of broad-based cuts in government spending for health, education, and public administration. Increased mining production will not compensate for these losses, particularly since many employers rely heavily on fly-in fly-out workers. Nunavut's dependence ratio is among the highest in the country and should get worse as the population of those 19 and younger continues to grow.

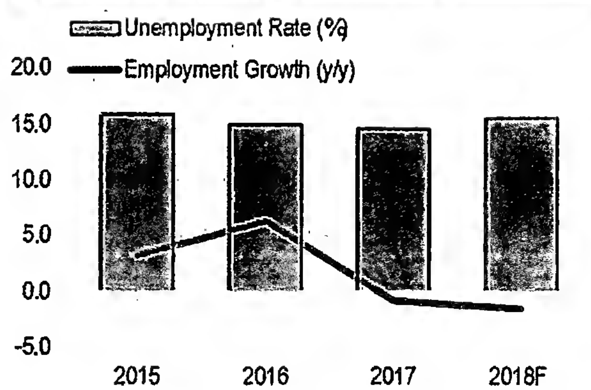
NU – Key facts

Population (Q4 2017)	38,243
Population as a per cent of Canada	0.1%
Real GDP growth 2016	1.75%
Unemployment Rate (Dec 2017)	12.1%
Key industries: services, mining	
Budget balance 2016-17	2.3%
Net debt (asset) to GDP 2016-17	-12.2%

Real GDP – Actual and Projected



Labour Market Developments[2]



1. Provincial real GDP by expenditure data are annual only and published with a lag of about 10 months.
2. Source: Statistics Canada. Most recent data from November, 2017

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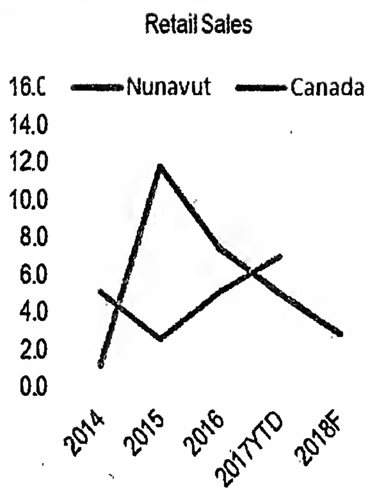
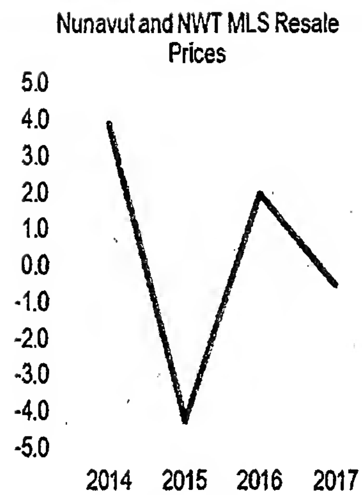
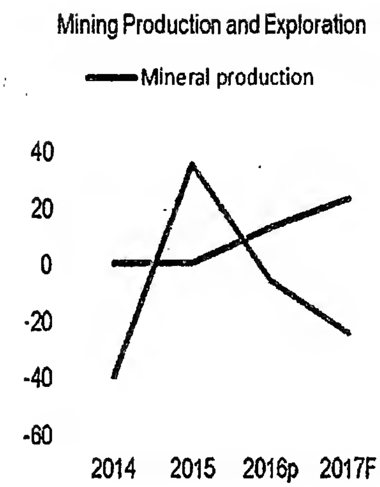
Nunavut – Economic and Fiscal Situation and Outlook

Indicators of Economic Activity, y/y % change







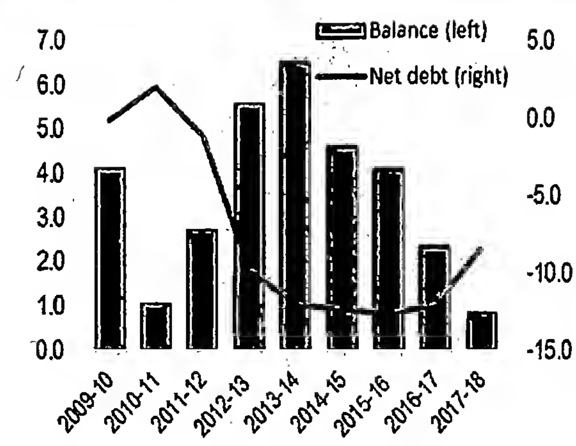
Nunavut remains in budgetary surplus

Nunavut recorded a $57 million surplus in 2016-17 (2.3% of GDP), based on the government's fiscal planning framework. According to Budget 2017 projections, this surplus will decline to $23 million (0.8% of GDP) in 2017-18. Total revenues are projected to grow by 3.6% in 2017-18, while total expenditures (including those related to capital spending and third-party agreements) are projected to grow by 3.4%.

The territorial government held net assets of $297 million (12.2% of GDP) at the end of 2016-17. The territory's net assets are projected to decline to $231 million (8.5% of GDP) in 2017-18.

On a consolidated basis, in 2016-17 Nunavut recorded a surplus of $84 million (3.4% of GDP) and net assets of $263 million (10.8% of GDP). The government does not provide a fiscal forecast on a consolidated basis.

Budgetary Balance and Net Debt (% GDP)



Summary Tables

Economic and Fiscal Situation and Outlook[1]

	2015	2016	2017	2018
Real GDP Growth Forecast (%)				
Statistics Canada (Actuals)	*1.75*	*6.4*		
Conference Board of Canada Territorial Outlook (Aug. 2017)			6.4	-0.2
Nunavut 2017-18 Budget (February 2017)			4.9	
Canada: 2017 Fall Statement		*1.5*	3.1	2.1
Unemployment Rate (%)				
Statistics Canada (Actuals)	15.9	14.9	14.6	
Conference Board of Canada Territorial Outlook (Aug. 2017)				15.5
Nunavut 2017-18 Budget (February 2017)				n/a
Canada: 2017 Fall Statement		*7.0*	6.5	6.3
	2015-16	**2016-17**	**2017-18**	**2018-19**
Budgetary Balance				
Millions of dollars	*97.7*	*56.9*	22.7	n.a.
% of GDP	*4.1*	*2.3*	0.8	n.a.
Net Assets				
Millions of dollars	*304*	*297*	231	n.a.
% of GDP	*12.7*	*12.2*	8.5	n.a.

Current to: Nunavut's 2017 Budget and 2016-17 Public Accounts.
[1] Numbers in italics are actuals.

Federal Support to Nunavut

In 2018-19, the Government of Nunavut will receive $1.6 billion through major transfers.

$ millions	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Major Transfers										
Canada Health Transfer[1]	27	28	29	31	34	34	35	37	38	40
Canada Social Transfer[1]	11	11	11	12	12	13	13	14	14	15
Territorial Formula Financing[2]	1,022	1,091	1,175	1,273	1,350	1,409	1,454	1,489	1,530	1,579
Total - Federal Support	1,060	1,129	1,216	1,317	1,396	1,456	1,502	1,539	1,583	1,634

[1] Canada Health Transfer includes transition protection payments to Nunavut in 2014-15.
Canada Social Transfer includes transition protection payments in 2009-10. Canada Social Transfer excludes $0.7 million from Budget 2008 transition protection payment to Nunavut notionally allocated over three years beginning in 2008-09.
[2] As approved by Parliament, TFF payment includes an additional $26 million in 2016-17, stemming from the legislative amendments to enhance the stability and predictability of the program.

Annex C: Benefits to Nunavut from Budget 2017 and 2018-19 Major Transfers

The Government of Canada has provided significant investments in support of Nunavut. In particular, Budget 2017 included the following benefits:

- $100,000 in additional tax relief to taxpayers in Nunavut over the 2016–17 to 2021–22 period, under the new Canada Caregiver Credit.

- $14.7 million over three years starting in 2017–18 to extend and enhance the Northern Adult Basic Education Program. The Northern Adult Basic Education Program provides residents in the three territories with targeted training so that they can participate more fully in the labour market.

- $2.0 billion over 11 years to support a broad range of infrastructure projects in rural and northern communities as they have unique infrastructure needs that require a more targeted approach. Infrastructure improvements could include the renewal and replacement of energy systems in northern communities, so that remote communities can reduce their reliance on diesel.

- $400 million in additional support in an Arctic Energy Fund to begin the above work by addressing energy security in the territories for communities north of the 60th parallel, including Indigenous communities.
- $240 million over 11 years for targeted support for northern housing. This targeted investment is in addition to Indigenous-specific housing investments to be made as part of funding for infrastructure in Indigenous communities.
- $11.2 million over the next 10 years in support of home care and mental health initiatives.
- $54 million to renew and expand the Territorial Health Investment Fund. This funding will support Yukon's efforts to innovate and transform its health care systems and ensure northerners have access to the health care they need.

In addition, Budget 2017 will provide $250 million over five years, and $62.2 million ongoing, to Fisheries and Oceans Canada to renew and expand the successful Pacific and Atlantic Integrated commercial fisheries initiatives and to augment Indigenous collaborative management programming.

The Government of Canada also provides significant investments through major transfers, which will total $1,634 million in 2018-19:

- $1,579 million through the Territorial Formula Financing;
- $40 million through the Canada Health Transfer; and
- $15 million through the Canada Social Transfer.

Annex D: Additional background on Carbon Pricing

Pan-Canadian Framework on Clean Growth and Climate Change (PCF)

- At their meeting on December 9, 2016, First Ministers (except those of Saskatchewan and Manitoba) agreed to implement the PCF.
- Under the PCF, carbon pricing will be implemented across the country in 2018.
  - Provinces and territories have the flexibility to implement either an explicit price-based system (a carbon tax such as British Columbia's, or a hybrid approach composed of a carbon levy and an output-based pricing system such as Alberta's) or a cap-and-trade system (such as those in Quebec and Ontario).
  - The federal government will implement a federal backstop in jurisdictions that request it or that do not implement their own carbon pricing system that meets the federal benchmark.
- In the PCF, the Nunavut government recognizes the role of carbon pricing and noted that the impact of carbon pricing on the cost of living in Nunavut would be an important consideration for future policy development.

Proposed Federal Carbon Pricing Backstop

- In May 2017, the federal government released for comment a technical paper outlining the details of the proposed federal carbon pricing backstop. The proposed backstop is to be comprised of two components:
  - A fuel charge on fossil fuels that will generally be paid by fuel producers or distributors, and
  - A performance-based system for large emitters (the output-based pricing system, or "OBPS").
- The backstop system is designed to minimize competitiveness and carbon leakage risks for emissions-intensive, trade-exposed activities for which those risks are high, while retaining the incentives to reduce emissions created by the carbon pricing signal.
- In December 2017, you and Minister McKenna sent a letter to your provincial and territorial counterparts indicating the process and timelines for determining where the federal backstop will apply.
  - Jurisdictions choosing the federal backstop should confirm this in writing by March 30, 2018. This would allow implementation of the backstop in those jurisdictions in fall 2018.
  - Jurisdictions implementing or maintaining their own system must outline by September 1, 2018 how they are implementing carbon pricing. The federal government will then determine whether each system meets the benchmark. In

case that a jurisdiction does not align with the benchmark, the federal government would implement the backstop on January 1, 2019 in that jurisdiction.

- From 2019 onwards, there will be an annual verification process. Major changes to provincial and territorial systems will also be monitored on an ongoing basis.

- On January 15, 2018, the Government released for comment draft legislative proposals related to the proposed federal backstop system, which reflects a number of targeted, minor refinements to the application rules of the proposed carbon charge that you concurred with following the consultation on the technical paper.
- Minister McKenna concurrently released a regulatory framework paper describing the proposed federal approach to carbon pricing for large industrial facilities.

  - It is proposed that output-based standards will be set as a percentage of the production-weighted national average emission intensity, in most cases (i.e., standards would generally not take into account regional considerations).

Revenue Return

- The federal government committed to returning the direct revenues from the carbon price under the federal system to the jurisdiction of origin and sought comments on the best mechanism to achieve this in the technical paper.
- [redacted]
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Territories Studies

- Under the PCF, the federal government and each of the territorial governments committed to studying the impacts of carbon pricing in and on the territories.
- [redacted]

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- [redacted]

Emission Intensive and Trade-Exposed (EITE) Review

- In the PCF, federal, provincial and territorial governments committed to review the overall approach to carbon pricing in 2022 to confirm the path forward, including continued increases in stringency. They also committed to complete an interim review in 2020 with, as an early deliverable, an assessment of approaches and best practices to address the competitiveness of emissions-intensive trade-exposed sectors.
- The EITE review is lead by ECCC on behalf of the federal government.
- A federal-provincial-territorial steering committee has been established and held a first meeting in January 2018 to launch the study.

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Department of Finance Canada | Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de Minister of Finance	
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Deputy Minister Sous-ministre	Paul Rochon
Remarks Remarques:	
SUBJECT / OBJET: **Meeting with Nunavut Minister of Finance David Akeeagok**	
File no. No de dossier 2018FIN467909	Date JAN 2 6 2018

Associate Deputy Minister & G7 Deputy for Canada **Sous-ministre délégué et représentant du Canada au G7**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Associate Deputy Minister **Sous-ministre déléguée**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Assistant Deputy Minister **Sous-ministre adjoint(e)**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☑ TH.